

CORRECTED FISCAL MEMORANDUM

SB 611 – HB 653

May 14, 2008

SUMMARY OF AMENDMENT (018346, 018446):

Amendment 018346 deletes the language of the original bill; authorizes any funds in the Lottery for Education Account in excess of \$10,000,000 on July 1, 2008 to be invested for the purpose of earning interest to fund the provisions of the bill as amended. Amendment 018446 makes multiple changes to the lottery scholarship program including, but not limited to the following: requirement that HOPE scholarship recipients maintain a 2.75 grade point average at each annual benchmark for scholarship retention; changes the benchmarks to the end of each academic year; changes the 120-hour limitation to five full years; authorizes dual enrollment grants for high school juniors and seniors; creates a pilot program to provide laptop computers to dual enrollment students taking courses that require computers; redefines non-traditional students; makes various changes applicable to HOPE Foster Child Tuition grants; makes various changes applicable to students who are dependents of military parents, with retroactive provisions; makes various changes applicable to home-schooled students; awards the full HOPE scholarship to students attending two-year eligible institutions with on-campus housing; makes dependents of religious workers eligible for HOPE scholarships, with retroactive provisions; creates the Helping Heroes Scholarship Act of 2008 for 375 students per year; creates the Rural Health Loan-Scholarship program for students attending accredited schools of medicine. This amendment also states the legislative intent that \$10,000,000 from the Lottery for Education Account be used each year to supplement Tennessee Student Assistance Awards.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – Increases the expenditure of lottery proceeds earmarked for scholarships and grants by \$34,603,200 in FY07-08 and by \$38,062,000 in FY08-09.

There is included in the Governor's FY2007-08 Recommended Budget the amount of \$9,300,000 from recurring lottery for education revenues for the increase in the base HOPE Scholars award levels. The amounts will increase from \$3,800 to \$4,000 at four-year schools and from \$1,900 to \$2,000 at two-year schools. Other awards, which are based on the HOPE award levels, will increase accordingly.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

On May 13, 2008, we issued a fiscal memorandum for this bill as amended indicating the following estimated fiscal impact:

Other Fiscal Impact - \$10,000,000 of non-recurring lottery funds (from the Lottery for Education Account) will be utilized to fund Tennessee Student Assistance Awards for FY08-09. Increases the expenditure of recurring lottery proceeds earmarked for scholarships and grants by \$32,026,000 for FY08-09. Therefore, the total increase of expenditures from lottery proceeds (from both non-recurring and recurring lottery revenue) is estimated to be \$42,026,000 for FY08-09.

The recurring increase of expenditures beginning in FY09-10 is estimated to be \$44,490,000 per year. This amount includes \$10,000,000 of annual Tennessee Student Assistance Awards, which will be funded by interest earnings generated from the Lottery for Education Account. Interest earnings are also expected to fund approximately \$8,675,000 of the bill as amended. An additional \$25,815,000 will be required from recurring lottery revenue each year to fund the provisions of the act.

Based on additional information provided by the Tennessee Student Assistance Corporation and the Tennessee Higher Education Commission concerning the Rural Health Act of 2008, the fiscal impact of the bill as amended is as follows:

(CORRECTED)

Other Fiscal Impact - \$10,000,000 of non-recurring lottery funds (from the Lottery for Education Account) will be utilized to fund Tennessee Student Assistance Awards for FY08-09. Increases the expenditure of recurring lottery proceeds earmarked for scholarships and grants by \$32,026,000 for FY08-09. Therefore, the total increase of expenditures from lottery proceeds (from both non-recurring and recurring lottery revenue) is estimated to be \$42,026,000 for FY08-09.

The recurring increase of expenditures beginning in FY09-10 is estimated to be \$44,790,000 per year. This amount includes \$10,000,000 of annual Tennessee Student Assistance Awards, which will be funded by interest earnings generated from the Lottery for Education Account. Interest earnings are also expected to fund approximately \$8,675,000 of the bill as amended. An additional \$26,115,000 will be required from

recurring lottery revenue each year to fund the provisions of the act.

Assumptions applied to amendment:

- Reducing grade point average requirement to 2.75 – first year costs are estimated to be \$17,500,000 (4,164 students); second year costs are estimated to be \$17,850,000 (4,247 students).
- Changing of benchmarks to end of academic year – first-year costs estimated to be \$2,800,000 (1,295 students); second year costs are estimated to be \$3,100,000 (1,425 students).
- Changing the HOPE continuation requirement from 120 semester hours to five years or degree – first year costs are estimated to be \$2,880,000 (720 students); second year costs are estimated to be \$2,880,000 (720 students).
- Dual enrollment grants for high school juniors and seniors – first-year costs are estimated to be \$2,400,000; second-year costs are estimated to be \$4,800,000.
- Pilot program for dual enrollment students – First-year costs are estimated to be \$300,000 (600 students); no additional cost beyond first-year costs.
- Redefining the term “non-traditional student” – first-year costs are estimated to be \$3,500,000 (2,200 students); second-year costs are estimated to be \$3,500,000 (2,200 students).
- Changes applicable to the HOPE Foster Child Tuition grant – first year costs are estimated to be \$50,000 (35 students); second year costs are estimated to be \$50,000 (35 students).
- Changes applicable to dependent children of military members with retroactive provision to FY04-05 – First year costs are estimated to be \$800,000 (200 students); second year costs are estimated to be \$440,000 (110 students).
- Changing the home-school requirement from two years to one year – first year costs are estimated to be \$400,000 (100 students); second year costs are estimated to be \$440,000 (110 students).
- Authorization for students attending two-year institutions with on-campus housing to be eligible for \$4,000 HOPE award – first year costs are estimated to be \$226,000 (113 students); second year costs are estimated to be \$248,000 (124 students).
- Changes applicable to dependents of religious workers – first year costs are estimated to be \$120,000 (30 students); second year costs are estimated to be \$132,000 (33 students).
- Helping Heroes Act of 2008 – First year costs are estimated to be \$750,000 (375 students); second year costs are estimated to be \$750,000 (375 students).

- Rural Health Loan-Scholarship Program for medical students – first year costs are estimated to be \$300,000 (25 students); second year costs are estimated to be \$600,000 (25 students).
- Given the legislative intent stated in section 33 of amendment 018446, \$10,000,000 from the Lottery for Education Account will be utilized for Tennessee Student Assistance Awards (TSAA) in FY08-09.
- The increase of expenditures from recurring lottery proceeds is estimated to be \$32,026,000 for FY08-09. The increase of expenditures from non-recurring lottery proceeds (from the Lottery for Education Account) is estimated to be \$10,000,000 for FY08-09. Therefore, the total increase of expenditures from lottery proceeds (recurring and non-recurring) is estimated to be \$42,026,000 for FY08-09.
- Based on current lottery revenue and expenditure estimates, the remaining balance in the Lottery for Education Account (after \$10,000,000 has been utilized to fund FY08-09 Tennessee Student Assistance Awards) is estimated to exceed \$415,000,000. Such balance is assumed to be invested long-term at a rate no less than four and one-half percent per year.
- Annual interest earnings are estimated to exceed \$18,675,000 per year ($\$415,000,000 \times 4.5\% = \$18,675,000$).
- The total increase of recurring costs for the lottery scholarship program as proposed for FY09-10 and subsequent fiscal years is estimated to be \$44,790,000 per year. This amount includes \$10,000,000 for annual Tennessee Student Assistance Awards, which are to be funded with interest earnings generated from the Lottery for Education Account. The remaining annual interest earnings (estimated to be \$8,675,000 per year) will fund other provisions of the bill as amended. An additional \$26,115,000 will be required from recurring lottery revenue to fund all provisions of the act.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc